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U.S. Farm Security Administration

INSURANCE GUIDE

March 1, 1938

FOREWORD

1. There are annexed hereto a copy and digest of the Agreement to Insure with the NMA executed October 20, 1936, and copies of AO 229 and AI 135, dated September 15, 1937. It is not the intention of this Insurance Guide to repeat in detail everything that is incorporated in the Agreement to Insure and in the Administration Order and Instruction. This guide will, however, supplement and, where necessary, clarify the Agreement to Insure and the Administration Order and Instruction, in the light of problems that have arisen in the various regions, and procedure details that have been worked out. This guide does not change existing procedure. It attempts to further explain and clarify existing procedure on the basis of the Agreement to Insure, and the AO and I.

INTRODUCTION

2. Prior to consumation of the Agreement to Insure with seventeen mutual companies the entire insurance situation had been canvassed. It was our desire to secure insurance on a nation-wide basis at the lowest possible rates, under the most advantageous terms and conditions and uniformity of procedure possible, to eliminate moral hazards, and to obviate any difficulties in connection with the replacement or repair of any buildings destroyed or damaged by fire or related risk. Under the ordinary insurance contract property is generally not insured for more than approximately 75 percent of its fair market value. This, of course, means that in the event of complete destruction there is not sufficient money from the insurance proceeds to replace the structure destroyed. In addition, in view of the fact that the occupant has an insurable interest, there would be the problem of dividing the proceeds between the client and the Government, with that part of the proceeds due the Government flowing into the Treasury rather than being available for reconstruction purposes. Obviously, under these conditions the ordinary insurance contract would not assure us that houses would continue to be available for our clients. Accordingly, a contract was sought, which would not only reduce the insurance cost both to the homesteaders and the Government, include terms and conditions more advantageous to the protection of the homesteaders' and the Government's interests than those usually found in insurance contracts, but would also provide that the insurance would be carried at a figure representing the replacement value of the structures insured and that the structures would, as a matter of course be replaced or repaired by the insurance companies, in the event of destruction or damage.

3. Negotiations were accordingly had with individual companies and with groups of companies, both stock and mutual, and consideration was also given to self-insurance by the Government. For policy, administrative, and legal reasons the last named alternative was not adopted. The Agreement to Insure with the NMA was the result of the negotiations just mentioned. The execution of the Agreement does not eliminate the possibility of insurance being written by other companies, provided the other companies offer rates and other terms and conditions as satisfactory as those offered by the National Mutual Association, and provided that the companies meet with the approval of the







Government. The offers of such companies will only be considered, however, if the companies are willing to write insurance on a nation-wide basis. If any offers are received by the regional offices they should be submitted for the consideration of the RP Division, Washington, attention RP-5.

4. In order to facilitate from an administrative viewpoint the handling of our insurance problems, the seventeen mutual companies have formed the National Mutual Association with an office in Washington. This was pursuant to the understanding reached at the time the Agreement to Insure was being negotiated. The NMA agreed to centralize its activities in Washington and the FSA likewise agreed to centralize its insurance activities, and to have all insurance matters flow to the NMA from one central office. This centralization of activities was one of the reasons why it was possible to obtain the low maximum rate designated in the agreement.

#### RISKS INSURED AGAINST

5. The Agreement to Insure provides protection in case of loss or damage by fire, lightning, windstorm, tornado, cyclone, hail, explosion, riot, civil commotion, aircraft, self-propelled vehicles and smoke, and, in respect only to property located in the states of California, Oregon, Washington, or Montana, earthquake. This coverage is broader than the risks usually covered in some of the states. However, since the cost of the insurance is no greater by reason of the additional risks covered, there is no advantage to be gained by requesting coverage for only part of the risks specified.

6. In addition to the above risks, the National Mutual Association has agreed to pay all fire department charges that might be made by reason of response to a fire, and to be liable for any payments that the Government or homesteaders might be unable to collect or pay by reason of any structure being rendered untenable by any of the perils insured against.

#### COVERAGE PROVIDED

7. The insurance coverage provided under the Agreement to Insure is very broad and may include all property, real or personal, in which the FSA has an interest, direct or indirect. The only exception is that automobiles and windmills can not be insured under the Agreement to Insure. The following properties may be covered under the Agreement: dwellings, barns, other outbuildings, crops, farm equipment, animals, and furniture, or properties used for industrial or mercantile purposes. The interest of the Government in the properties may be direct, as where the Government holds legal title to the property in question, or the interest of the Government may be indirect, as where title is held by State Corporations, homestead or cooperative associations, or homesteaders, provided that if the Government does not directly own the property it should have a mortgage interest or hold some other form of security. More specifically referring to the different situations in which the Government may have an interest, properties may be insured under the Agreement to Insure when they are owned directly by the FSA, are conveyed, sold or leased to homestead associations or homesteaders, are constructed or repaired by homesteaders under loan agreements, are constructed or purchased by corporations under loan agreements, or are purchased







by homesteaders with the proceeds of operating goods loans. (But see Paragraph 8b below.) In addition, the Agreement to Insure may cover properties to be purchased or repaired under the Bankhead-Jones Farm Tenant Act. Properties owned directly by the homesteaders which were not purchased with funds loaned by the Government, or which were not sold, conveyed, or leased to the homesteader by the Government, and in which the Farm Security Administration does not have any interest, are not insurable under the Agreement to Insure. (But see Paragraph 23 below for exception).

8. In further connection with the previous paragraph, the following should be noted:

- a. Furniture sold to homesteaders by the FSA under conditional sales agreements may be covered with insurance under the Agreement to Insure. It is not the policy of the Administration, however, to compel such homesteaders to insure the furniture. If they desire to do so, insurance may be written under the Agreement to Insure. In no event, however, may furniture held directly by the homesteader and not purchased from the Government be covered with insurance under the Agreement.
- b. It is the Administration's policy not to insure under the Agreement to Insure properties purchased with the proceeds of operating goods loans, although the Agreement is broad enough to include such coverage.
- c. By separate memorandum further details regarding insuring of properties purchased or repaired under the provisions of the Bankhead-Jones Farm Tenant Act will be given.

#### PROCEDURE

9. The procedure for obtaining insurance has been working satisfactorily and need not be set forth here in detail. The essential steps are, first, an insurance binder, second, an insurance requisition, and third, the preparation of the insurance certificate. An insurance binder will be placed by the National Mutual Association whenever it is advised that a particular unit or a group of units, or an entire project, should be covered with insurance as of a specific date. The request for a binder should include an estimate of the replacement value of the property insured. However, an insurance binder may be placed without specifying any estimate of value, provided that the value is submitted within a reasonable time after the request for the binder is submitted. Details concerning the insurance requisition are set forth in Paragraph 29 below. On the basis of the requisition the insurance certificates are drawn up by the National Mutual Association, and forwarded to the FSA.

#### REPLACEMENT VALUE

10. As stated above, under the usual insurance policy buildings are ordinarily insured at not more than three-fourths of the fair market value of the structure insured, under a policy providing that in the event of loss the







insurance company has the option of paying the amount of the loss in cash, not exceeding the value set forth in the policy, or of replacing the structure. Only rarely will the insurance company exercise its option of replacing the structure. Normally the loss is paid in cash. If FSA properties were insured on this basis, it would mean, for example, that if a dwelling costing \$2,000 to replace were insured for \$1,500 and were totally destroyed by fire at a time when title thereto was in the Government, the property being leased to a homesteader, the insurance company would pay the Government the sum of \$1,500. This would be covered into miscellaneous receipts of the Treasury, and unless other funds were available, it would not be possible to replace the destroyed dwelling. If, using another example, the dwelling had been sold to a homesteader under a Contract of Sale, with legal title still held by the Government, the same result would probably occur, although the situation would be complicated by the fact that a certain part of the proceeds representing the homesteader's equity would go to the homesteader. If the homesteader's equity were substantial a moral hazard would exist, namely, that for one reason or another, the homesteader might desire to have the property destroyed in order to obtain his equity in cash. This moral hazard is always present when buildings are insured under an ordinary policy. To a certain extent it influences the insurance rate. One of the considerations bringing about the low rates granted by the NMA was the elimination of this moral hazard, by reason of the fact that the homesteader will never receive any equity in cash by reason of the destruction of our properties, since the NMA has no option but to replace the building destroyed. The more important reason, however, for insuring at replacement value is to make certain that after a loss no difficulties will arise regarding the disposition of the insurance proceeds, and that in any event the structure destroyed will be replaced as a matter of course by the NMA. In other words, there will always be available a home for FSA clients.

11. Even if the disposition of insurance proceeds were not complicated by the interest of the Government therein, insurance under an ordinary policy at three-fourths of fair market value, would not enable us to guarantee that a building would at all times be available to replace the one destroyed. For example, if insurance coverage was in the sum of \$1,500 and it costs \$2,000 to replace, it would still be necessary to find another \$500 even if the entire \$1,500 were available for replacement purposes.

12. The concept of replacement value must be distinguished from the concept of fair market value, or, in the case of farmsteads, of the value to the farm of the buildings insured. Replacement value might or might not approximate the fair market value in some instances. Replacement value, however, should represent what it would cost to reconstruct the building destroyed with new materials of the same kind. Replacement value should represent, not what it might cost the Government to reconstruct the building, but what it would cost a private contractor in the locality. In other words, if a dwelling of frame construction, shingle roof, containing five rooms, were destroyed by fire January 1, 1938, its replacement value would be what it would cost a private contractor on January 1, 1938 to erect a similar type five-room dwelling of frame construction, shingle roof.







### ESTIMATING REPLACEMENT VALUES

13. In connection with replacement valuation, a number of different situations are met. In the first place it might be necessary to insure one of the new type, low cost buildings. In the second place, it might be necessary to insure one of the older more expensive buildings. Or, in the third place, it might be necessary to insure an original building existing on a project when acquired by the Government. If the structure is a new low cost building it might have been constructed either by the Construction Division of the FSA or by private contractor. If erected under contract with a private contractor, the replacement value of the building would probably approximate the contract price, and the contract price might, accordingly, be set forth in the insurance requisition and certificate as the insurable value of the building. If erected by the Construction Division, whether the structure is a new low cost building or one of the more expensive buildings, the replacement value of the building is not necessarily the construction cost to the Construction Division. In some cases the construction cost to the Construction Division might be greater than the replacement cost of the building by reason, for example, of the use of relief labor. In other instances the cost to the Construction Division might be less than the replacement value of the building by reason of bulk purchases, precutting, and possibly, in some cases, pre-fabrication. In all such cases the replacement value can only be estimated. It may be estimated in one or more ways. One way is to obtain from one or more local contractors estimates of what would be bid on an existing building in case it were necessary to replace it. The alternative method is to estimate replacement value on the basis of plans and specifications and the latest known labor and material costs in the locality.

14. Attention is called to the fact that the cost of a building, either to the Construction Division of the FSA or to a private contractor, does not necessarily represent the replacement cost of the building to the National Mutual Association if the building were to be destroyed by fire, or otherwise. For example, the Construction Division might on a particular project construct fifty buildings at the same time. It might pre-cut the materials in a centrally located shop, or even pre-fabricate to an extent certain parts of the buildings to be erected. It would also have the advantage of purchasing the materials in bulk and be able to utilize the services of a large group of workers working at the same time in one locality. On the same basis, a private contractor erecting 50 buildings under contract would have the same advantages. If, however, one building were destroyed and it were necessary to bring into the locality men and materials for the construction of one building, the advantages and reduced costs possible in the case of construction of 50 buildings at one time would not necessarily be present. Care should accordingly be exercised to make certain that the replacement cost set forth as the insurable value of a building represents what it would cost a private contractor to erect one building in a given locality, rather than the average cost of one building erected at the same time as thirty or fifty or more other buildings were erected.

15. In the case of an original building existing on the project when acquired by the Government, there are two methods of estimating insurable value. If the building is of such type that it would be desirable to replace







it by a similar building if destroyed, the replacement value of the original building should be estimated, either by a local contractor or by regional officials familiar with construction costs. In such cases care should be taken to differentiate between the appraised fair market value of the building, its value to the farm if a farmstead is involved, or the depreciated replacement value based upon the age of the dwelling. The true replacement value is not reached if one of the values just mentioned is added to the cost of the repairs made to the building. The insurable value of the building is what it would cost to construct a similar building with new materials, not the cost of repairs plus the fair market value of the building.

16. In the previous paragraph there was considered the problem of insuring an original building which would be replaced with a building of similar type and materials. In some cases, however, either by reason of the type of construction of the original building, or by reason of the excessive cost or size thereof, it might be advisable to select an approved type building which would replace the original building if destroyed, and to insure the original building for the replacement value of the approved type selected. This is the second method referred to in the previous paragraph. In such instances, however, the replacement value of the approved type selected must not be greater than the replacement value of the original building. If an approved type is selected, the type number thereof should be forwarded to the RP Division in Washington, together with the other insurance information, at the time insurance is requested, with a specific statement that the type selected will replace the original building if destroyed. The use of this method of insuring existing structures will not only obviate many of the difficulties in connection with estimating the replacement value of the existing structures, but will bring about the replacement of undesirable buildings with structures of a more desirable type, and will at the same time permit the checking of replacement values by the National Mutual Association in Washington. For example, if an original building would cost \$5,000 to replace, even though it has a fair market value of only \$1,000, the building may be insured for the sum of \$2,000, provided \$2,000 represents the replacement cost of the approved type structure which would replace the original building if destroyed. The plans and specifications of the approved type selected would be forwarded to the NMA, in the same way that they are forwarded for new structures erected by the FSA.

17. In some instances a regional office will request insurance coverage in the sum, for example, of \$400 representing the replacement value of an existing dwelling on a project. Obviously, the sum of \$400 would be insufficient to permit the construction of a new dwelling if the existing dwelling were destroyed and, consequently, the primary purpose for insurance coverage would not be present. Nevertheless the NMA would be obligated under the insurance certificate only to replace a \$400 dwelling. Whether such structures should be insured at all would depend on the use to which the original building, and the new building erected after its destruction, would be put.

#### PAYMENT OF INSURANCE PROCEEDS IN CASH

18. In exceptional cases where properties have been conveyed to, or are held by, Homestead or Cooperative Associations, it might be advisable to cover a building with insurance for less than the replacement value thereof on the understanding that if the building were destroyed the National Mutual As-







sociation would pay the amount of the insurance certificate in cash. This exceptional situation might involve a building used primarily for industrial or mercantile purposes. It would probably never involve a dwelling. Nevertheless the NMA, although not obligated to do so under the Agreement to Insure, has agreed that in exceptional cases it will agree to pay in cash, the amount of the loss or damage sustained, providing that the pertinent facts are clearly set forth in the requisition and certificate of insurance. In such cases the loss adjustment clause of the requisition and of the certificate will be modified as follows:

"Loss to be adjusted with \_\_\_\_\_ Association and the United States of America, provided, however, that if settlement is made in cash after such adjustment, it shall be paid to the \_\_\_\_\_ Association".

#### RATES

19. With the exception of buildings used primarily for industrial or mercantile purposes, the Agreement to Insure provides for a maximum rate of 60¢ per \$100 of replacement value. This rate includes not only fire coverage but the supplemental coverage referred to in Paragraph 5 and 6 above. For a three year term the rate is two and one-half times the one year rate. For a five year term the rate is four times the yearly rate. In view of the savings involved, insurance should be placed, if possible, for five or three year periods. This will depend not only on future plans for the project involved, but also on the availability of funds. For example, even though funds are available permitting the insuring of properties on a project for a five year term, the insurance should be placed only for a one year period if the planning for the project anticipates the formation of a homestead association during the course of the year, and the conveyance of the project to the homestead association. On the other hand, if the homesteaders on the project are all under five year leases and funds are available, the project should be insured for a five year period. In the event the rates otherwise applicable in a locality are less than 60¢ per \$100 of replacement value, the rate charged by the NMA will be less than the 60¢ rate. However, for budgetary purposes it is always preferable to estimate insurance costs on a 60¢ basis, inasmuch as the exact rates cannot be known until insurance is requested and an inspection of the properties is made by the NMA.

20. In the case of buildings used primarily for industrial or mercantile purposes, the maximum rate of 60¢ per \$100 of replacement value is not applicable. In connection with such buildings the rates can only be accurately known after insurance is requested and detailed insurance information forwarded, or a personal inspection made. Estimated rates, however, will be furnished in advance where requested, and it will usually be found that the actual rates will not be higher than the rates estimated. They will usually be somewhat lower.

21. It might be necessary in some instances to insure a building for a period of time less than one year. If the insurance will not be in effect







longer than two months the requisition should be held up until the insurance is cancelled. Consequently the certificate and invoice will designate correctly the term and cost of the insurance. If the term is uncertain but will extend beyond two months, the requisition should request a one year term. Subsequently the certificate can be cancelled and cost adjusted by pro-rating the cost for the period the insurance was in effect.

#### PAYMENT FOR INSURANCE

22. If insurance is requested for properties conveyed to a homestead association, the homestead association will pay the insurance charges out of funds budgeted for the purpose. If insurance is requested for properties held by homesteaders under Lease and Purchase Contracts, the insurance will usually be paid by the homesteader in occupancy. In some such cases, however, where the homesteader in the first instance has not sufficient funds to make the necessary payments, the cost of the insurance will be paid by the regional office out of the Taxes and Maintenance account of the project budget, and the homesteaders will later be billed for the insurance costs pursuant to the provisions of the Lease and Purchase Contract. If homesteaders are in occupancy under lease agreements, or if the properties insured are not occupied, the insurance costs will also be paid out of the Taxes and Maintenance account of the project budget, but the homesteaders will not later be billed therefor. Where homesteaders are in occupancy under Lease and Purchase Contracts, and are unable to pay the insurance costs at the time the insurance is requested, and at the same time there are not sufficient monies in the project budget to pay for the insurance costs, the insurance costs may be paid out of proceeds of the construction loan, provided sufficient funds are available after the other purposes of the construction loan are taken care of. In some cases it might be necessary to make additional loans to the homesteaders for insurance purposes. In the event that appropriated funds for "Taxes and Maintenance" are not available, it may be possible to receive an allotment of funds from the Bankhead Receipt account. The method for receiving such an allotment is set forth in A0 216. If insurance is voluntarily placed on furniture purchased from the FSA, the homesteader will pay therefor out of his own funds.

23. If properties on a particular tract are otherwise covered with insurance with the NMA, and the homesteader makes additional improvements at his own expense, such additional improvements may be covered with insurance under our Agreement to Insure. In such instances the insurance must be paid by the homesteader and forwarded by the Regional Office to the NMA upon receipt of the insurance certificates. However, where the tracts have been conveyed to a homestead association, the association must pay the NMA direct. If it so desires it may pay in advance for insurance on the additional improvements constructed by homesteaders and collect the insurance costs at a later date from each homesteader.

24. When insurance is requested for properties of the State Corporations, the Regional Custodian will ascertain whether funds are available wherewith to pay the insurance costs. If not, it will be necessary for him to initiate the budgetary action necessary to obtain a trust fund allotment.







25. In all instances where insurance costs are in the first instance paid by the individual homesteaders, they must be collected from the homesteaders by the regional or project officials and forwarded to the NMA after the certificates are received. The NMA will not collect directly from each homesteader. This is by reason of the low rates and advantageous terms and conditions incorporated in the Agreement to Insure. At the time the agreement was negotiated it was understood that under the provisions thereof it would not be necessary for the NMA to make collections individually from homesteaders located throughout the U.S., as this would unduly increase its cost of operation. Where insurance is obtained for homestead association properties, however, the payments will be made direct by the homestead association to the NMA.

#### INSURANCE FUNDS

26. Where insurance premiums are paid by the Government, they will be paid out of the Taxes and Maintenance accounts of the project budgets. When these budgets are under consideration, due attention should be paid to insurance requirements and insurance costs, based upon rates as set forth in this guide, state of completion of the project, and number of units for which coverage will be requested during the budgetary year.

27. At the time the insurance binder is requested, full consideration should be given to the cost of the insurance and the availability of funds, and the RP Division in Washington should be advised that the necessary funds are available wherewith to pay the insurance costs. Funds for the payment of insurance premiums should be encumbered at the time insurance binders are requested, or as soon thereafter as possible. In the event that appropriated funds for "Taxes and Maintenance" are not available, it may be possible to receive an allotment of funds from the Bankhead Receipt account. The method for requesting such an allotment is set forth in AO 216.

#### WHERE INSURANCE IS NECESSARY

28. If buildings on a project are completed and occupied by homesteaders, insurance coverage should be requested pursuant to AO 229 and AI 135. If the buildings on a project are completed but for one reason or another occupancy is delayed, coverage should, nevertheless, also be requested. Only in exceptional cases should insurance be requested during the course of construction. In such cases full details should be forwarded to the attention of the RP Division in Washington. If original buildings are on the project at the time it is acquired by the FSA, and these buildings will not be substantially repaired or renovated thereafter, insurance should be requested as soon as possible, after title is acquired by the Government. If the original buildings, however, have only a nominal value and will be substantially renovated or repaired, the buildings should not be covered by insurance until the repair or renovation is completed. If buildings are constructed by contract, insurance coverage should be requested as of the date the contractors' responsibility terminates.







## REQUISITION FOR INSURANCE

29. Within a reasonable time after an insurance binder is placed it is necessary to requisition insurance certificates from the National Mutual Association. The proper procedure is for the regional office to forward to the RP Division in Washington, attention RP-5, either at the time the binder is requested or within a reasonable time thereafter, three copies of a requisition to replace the binder. In some instances one requisition may replace more than one binder. One copy of the requisition will be forwarded to the National Mutual Association. One copy will be filed with the RP Mails and Files in Washington, and the third copy will be retained by the Real Property Control Section. Necessary copies of the forms should be duplicated by the regional office.

There is attached hereto a form of requisition which varies somewhat from the requisition form attached to Administration Instruction 135, in that it includes a column to show the type numbers of the structures to be insured and another column showing the type of agreement under which a homesteader is in occupancy. The form is self-explanatory except as follows:

- a. The Insured. The Insured should always be the title holder to the property to be insured. The title holder will usually be the United States of America. If, however, a State Corporation is or has been involved in the Construction or operation of a project, the Insured will be "The United States of America and the \_\_\_\_\_ Rural Rehabilitation Corporation". If title is held by a homestead association, the Insured would be "\_\_\_\_\_ Homestead Association". If title to the property is held by an individual homesteader, the homesteader would be the Insured. Care should be taken to differentiate between a conveyance and a Contract of Sale. A homesteader in occupancy under any type of purchase contract does not thereby acquire title to the property and would, accordingly, not be the Insured.
- b. Loss Adjustment Clause. The purpose of the loss adjustment clause is to indicate all parties having an equity in the property to be insured. The Government and the State Rural Rehabilitation Corporation, if the State Corporation has been involved in the construction or operation of the project, will always have sufficient equity to be designated in the loss adjustment clause regardless of whether or not the Government and the State Corporation are also the Insured. A homesteader or Homestead Association will have sufficient equity only if they are the Insured, or if they hold some form of purchase agreement or contract of sale. The loss adjustment clause may be left blank in the event no party except the Insured has any interest in the property. A few examples follow.

- (1) If the Government is the Insured and a homesteader is in occupancy under a lease form such as Tenure Form D-1 or D-2, the loss adjustment clause should be left blank.







- (2) If the Government is the Insured and the homesteaders are all in occupancy under Lease and Purchase contracts, the loss adjustment clause would be filled in as follows: "The United States of America, Insured, and the homesteaders designated below." In such cases the names of the homesteaders would be listed in the appropriate column opposite the unit numbers.
  - (3) If in the example given in the previous paragraph there were also other homesteaders in occupancy under a lease form such as Tenure Form D-2, the names of such homesteaders would not be included in the column opposite the unit numbers.
  - (4) If in the examples given in the two previous paragraphs a State Corporation, as well as the Government, is the Insured, the loss adjustment clause would be filled in as follows: "United States of America and the \_\_\_\_\_ Rural Rehabilitation Corporation, Insured, and the homesteaders designated below."
  - (5) If a project has been conveyed to a homestead association and the homesteaders are in occupancy under Tenure Form A, namely, a Contract of Sale between the Homestead Association and the homesteader, the loss adjustment clause would be filled in as follows: "\_\_\_\_\_ Homestead Association, Insured, United States of America, Mortgagee, and the homesteaders designated below."
- c. The requisition number should be left blank, inasmuch as it will be filled in by the Washington office so that the numbers of the requisitions will run consecutively, regardless of location of the properties insured.
  - d. The effective date of the insurance should be the same as the effective date of the binder. The regional office will be advised thereof as soon as a binder is placed. If one requisition replaces more than one binder, care should be exercised to clearly designate the effective date of the insurance on each unit. If a requisition replaces only one binder, which will usually be the case, the effective date of the binder should be indicated in the space provided in the upper right-hand corner of the requisition.
  - e. The column headed "Type Number" should be filled in if the buildings are new structures. If the buildings are not new structures, the word "Old" should be typed in.
  - f. The column headed, "To be replaced by" should be filled in with the type numbers only as to structures (1) which are original structures existing on the project at the time it was acquired by the Government, and (2), where it has been determined by







the regional office that in the event of destruction of the original building it would be replaced by a different structure of an approved type. This column should not be used if the original structure is insured at its own replacement value.

- g. Insurable value should always represent replacement value of the building insured, unless the building is an original building existing on the project at the time it was acquired by the Government and is to be replaced by a different building of an approved type in the event it is destroyed. In such case its insurable value will be the replacement value of the approved type building which would replace it if it were destroyed.

30. In some instances after insurance certificates are written it will be found that ownership of the tract or project will change or that the status of the homesteader on the tract will change. For example, the homesteader under a lease arrangement might execute a contract of sale. Full information should be forwarded to Washington, attention RP-5, for advise as to whether a certificate should be returned for rewriting or whether the NMA will authorize the Regional office to make the necessary corrections.

#### INSURANCE REPORT FORMS

31. During the past year the regional offices have made use of a number of different forms upon which insurance information to be included in the requisitions for insurance is set forth. On the basis of past experience it is now believed advisable to standardize the number of forms used. Provided the modified requisition form, as set forth in paragraph 29 above is correctly filled out, it will not be necessary to submit any additional information, unless specifically requested, except in those cases where an original building is to be insured. In such cases two copies of the Valuation Report for insurance should be annexed to the insurance requisition. This paragraph has no application to information furnished at the time a binder is requested. It has application only to the information furnished at the time insurance certificates are requisitioned.

32. The Valuation Report form is self-explanatory. However, if the original building is to be replaced by a building of an approved type, as referred to in Paragraphs 15 and 16 above, the replacement value of the original building to be shown on the Valuation Report form need not be as accurately determined as would be the case if a building of the same type would be erected in case it were destroyed. The replacement value of the building need be only roughly estimated so that it will be clear that its replacement value is not less than the replacement value of the new approved type building which would replace it in the event of its destruction.

#### RENEWAL OF INSURANCE

33. Each regional office should keep advised of the expiration dates of insurance certificates covering properties in their region, and at a reasonable time prior to the expiration of a certificate should determine whether the insurance should be renewed, the term for which such insurance should be taken





out and whether funds are available wherewith to pay the insurance premium. In addition, consideration should be given to the question of whether, by reason of changing material and labor costs, the replacement value of the structures for which the insurance is to be renewed should be modified. As you are aware, under the Agreement to Insure, either the NMA or the Government may at any time request a modification of the insurance value of any structure by reason of a change in the replacement cost thereof. During an insurance term a modification of the insurable value should be requested only when there has been a substantial change in labor and material costs. In the absence of any such unusual change in construction conditions this matter need only be considered at the time certificates are to be renewed.

34. Wherever possible all insurance on a project should expire at the same time. When this does not prove feasible in the first instance by reason of the fact that the various units on a project are insured on different dates, the situation can be corrected at time of renewal by providing a common expiration date for the insurance on all units.

#### ADJUSTMENT OF LOSSES

35. Experience has indicated that after a loss has occurred involving the total destruction of a building, it is sometimes difficult for the NMA to obtain a bid for the replacement of the structure at a reasonable cost. In some instances the difficulty of obtaining reasonable bids in line with local construction costs is believed to be caused by a reluctance on the part of local contractors to submit reasonable bids in view of the Government's interest in the replacement of the property. Accordingly, full co-operation should always be given to the representatives of the National Mutual Association, especially in assisting and bringing to the attention of the contractor involved the fact that the Government is interested only in approving the construction of the building when completed, in the same way a private individual would be interested if the insurance companies were replacing a building insured by a private individual. All details involving execution of the contract and payment are a responsibility of the insurance companies and do not directly concern the Government. In this connection it should be borne in mind that if in a given locality the NMA is unable to obtain a bid at the insurable value set forth in the certificate, there might be no alternative but to increase the insurable values on all other certificates covering properties in the localities, so that the insurable values thereof would conform to the actual replacement cost of the structure destroyed. In no event, however, will there be a retroactive increase in premium by reason of the fact that in a given instance replacement values must be raised.

36. Both in adjustment of losses and in estimating replacement values it might be found that the replacement cost is unduly increased by reason of specifications, such as the use of materials not normally used in the locality or the unusual dimensions of the lumber used. In such cases if a change in specifications will decrease the replacement cost, without changing the type of structure involved, changes in specifications may be made provided that all pertinent facts are forwarded to the RP Division, Washington, attention RP-5.

#### MASTER POLICY

37. Pursuant to the provisions of the Agreement to Insure, each company





executing the Agreement has forwarded to the Farm Security Administration, for each state in which it is licensed to do business, the Standard Policy for the particular state, as modified and amended by the Agreement to Insure and the Master Form. In the event that one or more of the states had no Standard Policy, the "Old New York Standard Policy", as modified and amended by the Agreement and Master Form, was forwarded. These 677 policies are the Master Policies under which the insurance is written. The Master Form specifically refers to the Certificate of Insurance. These Certificates of Insurance, when issued, accordingly become a part of the Master Policies, and specifically designate the location, value, rate, and other factors in connection with the insuring of one or more properties. All essential provisions are found either in the Master Form or Agreement to Insure, and for that reason it is unnecessary to send to each region copies of all Master Policies for the states in the region.





The insured is: Requisition No. \_\_\_\_\_

Loss to be adjusted with the following (Project Name)  
as their interests may appear: Project No. \_\_\_\_\_

Insurance Effective: \_\_\_\_\_  
General Location of Project: Term: \_\_\_\_\_

Unit & County	Homesteader	Occupancy Agreement	Building Insured	Construction	Roof	Type No.	Insurable Value	To be re- placed by
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UNITED STATES DEPARTMENT OF AGRICULTURE  
FARM SECURITY ADMINISTRATION

VALUATION REPORT FOR INSURANCE  
(For Original Structures Only)

Project \_\_\_\_\_ Unit No. \_\_\_\_\_ Date Valued \_\_\_\_\_

Full Name of Client \_\_\_\_\_ Address \_\_\_\_\_

Property situated on \_\_\_\_\_ acres, about \_\_\_\_\_ miles \_\_\_\_\_ from \_\_\_\_\_

on the \_\_\_\_\_ side of \_\_\_\_\_ road in \_\_\_\_\_ County,

State of \_\_\_\_\_, and formerly known as the \_\_\_\_\_ Farm.

Buildings occupied by client under Tenure Form \_\_\_\_\_

Type Bldg.	Bldg.	Dimensions*	Age	Brick Stone Frame	Roof	Foun- da- tion	No. Rms.	Chim- neys, Flues	Replace- ment Value	Remarks

LOCATION OF BUILDINGS

_____	_____
_____	_____
_____	_____
_____	_____

\* Designate in order, width,  
length, and height, in feet.

\_\_\_\_\_  
Community Manager





## DIGEST OF AGREEMENT TO INSURE

AGREEMENT between Dr. R. G. Tugwell as Administrator and seventeen (17) mutual insurance companies.

WHEREAS, the United States, acting through the R. A. or other agencies (hereinafter called the Government) has established projects, and

WHEREAS, the United States has a financial interest therein, and

WHEREAS, it is in the Government's interest to provide for insurance for property in the projects, and

WHEREAS, the Companies are licensed in various states of the United States, and

WHEREAS, the Companies have associated themselves as the National Mutual Association to provide insurance for project property,

THEREFORE, the parties agree as follows:

1. The Companies will insure property on projects as requested by the Administrator, insuring against fire, tornado, and a variety of other risks, to be insured in accordance with the standard policy of each state as modified and amended by the Agreement and the Master Form annexed thereto. If the state has no standard policy the "Old New York Standard" policy will be used.
2. The Companies will bind any property in any project upon notice by the Administrator, simply by identification of the property, details to be later furnished, Companies to be liable even though errors or omissions in placing insurance occur.
3. Certificates of insurance will be issued under the modified standard policies, which certificates will include any special conditions applicable to a particular property.
4. When requested by the Administrator, indemnity will be severally provided by the different companies in accordance with a schedule of liability attached to the Agreement, which schedule sets forth the number of Companies transacting business in the various states, as well as the amount of risk assumed on each property by the several companies in the various states. The schedule cannot be changed without the Administrator's approval.
5. After loss, the Companies will repair, rebuild, or replace the property with other property of like kind and quality within a reasonable time after receipt of proof of loss, except that the limit of liability assumed by the Companies shall not





exceed the amount of insurance stated in the certificate. This amount, however, as provided in Paragraph 6, shall be adjusted, even though loss has occurred, to conform to the estimated replacement value at time of loss, although there shall be no retroactive change in premium. After loss, the Companies shall furnish a contractor's completion bond in favor of any beneficiaries designated by the Administrator.

6. The amount of insurance will be replacement value, which may be adjusted at any time by either party to conform to current replacement value. The premium shall be adjusted accordingly but in no case retroactively. The Association shall be given any necessary information as to plans and specifications pertaining to the value of the property and both parties shall agree upon the source of statistical information and method of calculating replacement value.
7. The yearly premium will be the established rate in the locality, but will not exceed 60¢ per \$100, except on property used primarily for industrial or mercantile purposes. Insurance may be written for five (5) years for the cost of four (4) years.
8. Neither the Administrator nor the United States assumes any liability except for such insurance as is issued to the United States as the Insured. Premiums will be charged to the Insured. The Administrator will receive monthly a statement of premiums for insurance written during the month, which premiums will become due ninety (90) days thereafter.
9. The Companies will maintain an office in Washington in charge of a manager authorized to act and bind each company, which manager is empowered to accept service and to take care of all other matters, the Companies to submit to the jurisdiction of any court.
10. Insurance will be on a participating basis without liability for assessment, except in Massachusetts and New Hampshire, and except that in the case of the United Mutual Fire Insurance Company, the Union Mutual Fire Insurance Company, or the National Retailers Mutual Insurance Company, the Insured shall be subject to assessment liability provided by such companies' by-laws, which liability shall not exceed the companies' proportionate share of one additional premium as stated in the certificate.
11. Dividends will be paid to the Administrator for the benefit of the Insured, unless at the Administrator's option they are credited to renewal premiums.





12. The Companies cannot, except for non-payment of premium or termination of the financial interest of the Government, cancel any insurance prior to the termination of the Agreement to Insure, although the Administrator may cancel any insurance at any time, the unearned premium being refunded. In addition, the Administrator may cancel any binder, policy, or certificate within sixty days from the effective date of the insurance without any cost to the Insured for the period during which the insurance was in effect.
13. The Agreement to Insure, as distinguished from any binder, policy, or certificate written thereunder, may be cancelled by either party on six months' notice, but the insurance in force on the individual property at the time the agreement terminates will continue in force under the terms of the Agreement, unless cancelled in accordance with the terms of the applicable standard policies.
14. Upon seven (7) months' notice, the Administrator or one or more Companies may cancel the Agreement as to such one or more Companies, in which case the participation of such Company or Companies in insurance in force at the time cancellation becomes effective, shall cease. At least ninety (90) days prior to cancellation of the Agreement as to one or more Companies, the remaining Companies shall file a new schedule of liability acceptable to the Administrator so that complete indemnity will at all times be provided under the Agreement for all property in any project.
15. The Administrator may act through his duly authorized agent or representative.
16. The term "Administrator" shall include any acting administrator, successor to Dr. Tugwell, or the incumbent of any agency or department which may succeed the R. A. or perform the duties thereof, and the Attorney General of the United States.
17. The function of this Agreement is to provide uniform terms and conditions for property in any project, but if a court decision or ruling by a duly authorized authority necessitates the amendment of the Agreement or the Master Form, such amendment shall be made after written notice to the Administrator, and shall apply only in the particular jurisdiction involved. The Companies agree to defend all provisions of the agreement and Master Form before any court or authority and will not rely upon any adverse ruling as a defense to the payment of and loss which occurred prior to such ruling.





18. Other mutual companies may become parties to the Agreement with the consent of the Administrator and of the Companies, which other Companies shall participate only in insurance written after they become parties to the Agreement and in accordance with a new schedule of liability.
19. Each Company will file copies of annual statements required by the statutes of the state in which the Company is organized.
20. The Agreement may be executed in several counterparts, all of which taken together shall constitute one instrument.





### SUMMARY OF MASTER FORM

(To be attached to the standard underlying policies issued by each company in each state in which it is licensed to transact business.)

All insurance hereunder is subject to the agreement to insure between Dr. Tugwell and the Companies, and subject to the following terms and conditions.

1. Enumerates the indemnity provided and provides for replacement in case of loss as set forth in the agreement to insure.
2. Designates the insured as the United States of America or as corporations, association, individuals or both as may be named in each policy or certificate.
3. The term of the insurance shall be stated in the certificate.
4. The property covered shall be described in the certificate.
5. The location of property shall be designated in the certificate.
6. The amount of insurance shall be stated in the certificate.
7. The rate and premium shall be stated in the certificate.
8. The terms "Buildings and Contents" are broadly defined.
10. All "Contents" insured if located within 100 ft. of building insured.
11. This provision negatives 15 clauses found in the usual standard policy and provides that the policy or certificate will not be invalidated by reason of the occurrence of any of the enumerated items.
12. Invalidation of any one policy or certificate shall not affect any others.
13. This provision states special conditions applicable to the following risks: lightning, windstorm, riot, explosion, aircraft and smoke. Damage to windmills by windstorm excluded.
14. Companies liable for loss ensuing from destruction of refrigerating apparatus and the like.





15. If any building is rendered untenatable by reason of the perils insured against, and the insured is unable to collect or pay rental payments, the Companies will pay same until the property is again made tentable.
16. The Companies shall be liable for all fire department charges arising from response to fire calls.
17. This provision excludes indemnity for losses to automobiles, accounts, notes, and the like.
18. This provision states the requirements in case of loss, and enumerates the information to be furnished after loss in the proof of loss and otherwise.
19. No certificate may be cancelled by Companies prior to termination of the agreement except for non-payment of premium or termination of financial interest of the Company although the Administrator may cancel any certificate or policy at any time.



